



Joint Legislative Audit Committee
Office of the Auditor General



FINANCIAL AUDIT REPORT
STATE SCHOOL BUILDING SAFETY FUND
YEAR ENDED JUNE 30, 1979

REPORT TO THE
CALIFORNIA LEGISLATURE

REPORT **F-345**

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

345

FINANCIAL AUDIT REPORT
SCHOOL BUILDING SAFETY FUND
YEAR ENDED JUNE 30, 1979

OCTOBER 1980



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

SENATORS
ALBERT RODDA
PAUL CARPENTER
JOHN NEJEDLY
ROBERT PRESLEY

ASSEMBLYMEN
S. FLOYD MORI
DANIEL BOATWRIGHT
LEROY GREENE
BRUCE NESTANDE

□ STATE CAPITOL
SACRAMENTO 95814
(916) 445-7380

□ 925 L STREET
SUITE 750
SACRAMENTO 95814
(916) 445-0255

S. FLOYD MORI
CHAIRMAN

November 21, 1980

345

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the
Auditor General's financial audit report of the School Building
Safety Fund, year ended June 30, 1979.

The auditors are Richard I. LaRock, CPA; Fredrick M. Lewis;
Thomas R. Dovi; and Charles Thrasher.

Respectfully submitted,

S. FLOYD MORI
Chairman, Joint Legislative
Audit Committee

Attachment

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
AUDITOR'S OPINION	3
FINANCIAL STATEMENTS	
BALANCE SHEET	4
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE	5
NOTES TO THE FINANCIAL STATEMENTS	6

INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee and in compliance with federal Office of Revenue Sharing regulations, we have conducted an audit of the School Building Safety Fund. This audit was conducted under the authority vested in the Auditor General by Sections 10527 and 10528 of the Government Code.

The School Building Safety Fund was established by Chapter 500, Statutes of 1972. The fund received an allocation of \$30 million from the one-time accelerated collection of revenue resulting from the enactment of withholding and quarterly estimates of personal income taxes. The fund provides financial assistance to school districts for replacement and repair of local school buildings to comply with safety requirements. Chapter 22, Statutes of 1973 authorizes apportionment loans to assist school districts which lack matching funds so the districts can qualify for state loans to comply with safety requirements.

The State Allocation Board, whose members are the Director of Finance, the Director of General Services, and the Superintendent of Public Instruction, is responsible for administering the programs of the School Building Safety Fund. The board, which receives assistance from the Office of Local

Assistance within the Department of General Services, apportions funds to school districts that will benefit most from the reconstruction or replacement of schoolhouse facilities. These apportionments are based upon such factors as the age and structural safety of existing buildings at schools where the construction will occur, the acuteness of overcrowding, and the density of population in the attendance areas affected. Two members of the Senate appointed by the Senate Committee on Rules and two members of the Assembly appointed by the Speaker meet with and advise the board. The State Controller's Office maintains the central accounts for the fund.

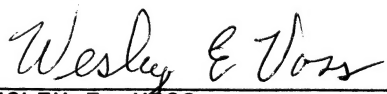
AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature:

We have examined the balance sheet of the School Building Safety Fund as of June 30, 1979 and the related statement of revenues, expenditures, and changes in fund balance for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 2 of the Notes to the Financial Statements, the State Controller computes the annual amount of loans receivable from school districts. This amount is payable to the General Fund for its one-time allocation to the School Building Safety Fund. The State Controller's computations are based upon the assessed valuation of property in each district as well as other factors. The State Allocation Board estimates that 93 percent of the \$22,661,374 in loans receivable from school districts at June 30, 1979 will be collected. This estimate is based upon the statutory requirements for repayment of loans and estimates of current and probable changes in assessed valuations. Because of the uncertainties involved in determining future assessed valuations of property in school districts, this estimate is not susceptible to substantiation by auditing procedures.

In our opinion, subject to the effects of such adjustments, if any, as might have been required had the amount of loans to be collected from school districts and the amount payable to the General Fund been known, the aforementioned financial statements present fairly the financial position of the School Building Safety Fund at June 30, 1979 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



WESLEY E. VOSS
Assistant Auditor General

Date: September 5, 1980

Staff: Richard I. LaRock, CPA
Fredrick M. Lewis
Thomas R. Dovi
Charles Thrasher

SCHOOL BUILDING SAFETY FUND
BALANCE SHEET
JUNE 30, 1979

ASSETS

Cash		\$ 549,894
Loans receivable from school districts:		
Current (Note 2)		1,498,930
In excess of one year (Note 2)	\$21,162,444	
Less: Allowance for uncollectible loans receivable	<u>1,586,296</u>	<u>19,576,148</u>
Total Assets		<u>\$21,624,972</u>

LIABILITIES AND FUND BALANCE

Liabilities:		
Payable to General Fund:		
Current (Note 2)		\$ 1,498,930
In excess of one year (Note 2)		<u>19,576,148</u>
Total Liabilities		<u>21,075,078</u>
Fund Balance:		
Reserved for loans or grants to school districts		<u>549,894</u>
Total Liabilities and Fund Balance		<u>\$21,624,972</u>

The notes to the financial statements are an integral part of this statement.

SCHOOL BUILDING SAFETY FUND

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

Revenues:	
Interest income (Note 3)	<u>\$1,046,078</u>
Other Financing Sources:	
School district loan repayments (Note 3)	<u>752,321</u>
Total Revenues and Other Financing Sources	<u>1,798,399</u>
Expenditures:	
Current:	
Grants to school districts (Note 4)	<u>652,450</u>
Other Uses:	
Transfers to General Fund (Note 3)	<u>1,798,399</u>
Total Expenditures and Other Uses	<u>2,450,849</u>
Excess of Revenues and Other Financing Sources under Expenditures and Other Uses	(652,450)
Fund Balance:	
Fund balance - July 1	<u>1,202,344</u>
Fund balance - June 30	<u>\$ 549,894</u>

The notes to the financial statements are an integral part of this statement.

SCHOOL BUILDING SAFETY FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1979

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements reflect the financial position and the results of operations of the School Building Safety Fund. The statements have been prepared in conformity with generally accepted accounting principles applicable to state and local governments as prescribed by the American Institute of Certified Public Accountants and by the National Council on Governmental Accounting.

The State Allocation Board, assisted by the Office of Local Assistance within the Department of General Services, administers the fund. The State Controller maintains central accounts for this fund and annually publishes fund statements.

The School Building Safety Fund is accounted for as an expendable trust fund. Expendable trust funds account for fiduciary resources for which principal and income may be expended. The School Building Safety Fund accounts for the remainder of a \$30 million General Fund allocation that provides financial assistance to school districts for the repair and replacement of local school buildings to comply with safety requirements. Administrative costs of the fund are paid from annual appropriations from the State School Building Aid Fund to the operating departments. These administrative costs are reported as expenditures of the State School Building Aid Fund.

The School Building Safety Fund is maintained on a modified accrual basis of accounting. These are some of its significant elements:

Income

Throughout the fiscal year, income is accounted for on a cash basis. At June 30, the accounts are adjusted to accrue all earned but uncollected income.

Expenditures

Expenditures are accounted for at the time claims for payment are filed with the State Controller. At June 30, expenditure commitments are accrued.

2. LOANS RECEIVABLE FROM SCHOOL DISTRICTS
AND PAYABLE TO GENERAL FUND

The State Controller calculates the annual payments for loans receivable from school districts and deducts the amounts from apportionments made to the districts from the State School Fund. These deducted amounts are then payable to the General Fund.

Annual loan repayments are limited to the lower of (1) an equal annual amount (annuity factor for 20 equal annual payments x loan principal) or (2) an amount produced by a tax rate of \$.175 applied to the assessed valuation of property for each of the district's "grade levels" which are defined by Section 16002 of the Education Code. In any year in which the amount derived using the \$.175 tax rate is less than the equal annual amount, the State Controller is required to forgive the loan by the excess of the equal annual amount over the amount produced by the \$.175 tax rate. The State Controller forgave \$424,075 in loans receivable from school districts during the 1978-79 fiscal year.

The State Allocation Board estimates that 93 percent of the \$22,661,374 in loans receivable from school districts at June 30, 1979 will be collected. The estimate is based upon the statutory requirements for repayment of loans and estimates of current and probable changes in assessed valuations.

3. INTEREST INCOME, SCHOOL DISTRICT LOAN REPAYMENTS,
AND TRANSFERS TO GENERAL FUND

The statutes provide that School Building Safety Fund loan repayments and interest collected on loans receivable are only to be transferred to the General Fund. The loan repayments and interest are used to repay the General Fund for the one-time allocation to the School Building Safety Fund.

4. GRANTS TO SCHOOL DISTRICTS

The State Allocation Board apportions grants to school districts that have the greatest need. The grants provide matching funds to school districts to qualify for loans for the replacement and repair of school buildings to comply with safety requirements. Districts lacking sufficient local matching funds are eligible for these grants.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps